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Update: Deutsche Bank AG

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Update: Deutsche Bank AG

SACP	bbb	+	Support	+2	+	Additional Factors	0
Anchor	bbb+		ALAC Support	+2	Issuer Credit Rating		
Business Position	Adequate	0	GRE Support	0	A-/Stable/A-2		
Capital and Earnings	Adequate	0	Group Support	0	Resolution Counterparty Rating		
Risk Position	Moderate	-1	Sovereign Support	0	A/--/A-1		
Funding	Average	0					
Liquidity	Adequate						

Credit Highlights

Overview	
Key strengths	Key risks
Diversified franchise serving retail, corporate, and institutional clients.	Multi-year restructuring is not yet complete and profitability remains subpar.
Improving strategic execution and performance.	Inherent complexity and cyclical nature of investment bank activities.
Solid capital and liquidity profiles.	Sustained earnings pressures from the COVID-19 pandemic, negative euro interest rates, strong competition, and technology investments.

Deutsche Bank's transformation program is delivering tangible benefits. We raised the long-term issuer credit rating in November 2021 because we think Deutsche Bank is becoming a more profitable, more focused, and better-controlled group as it implements its operational restructuring. The bank is two-thirds of the way through implementing the plan and almost all of the associated restructuring costs will be expensed by the end of 2021. The transformation program is more decisive than previous editions in addressing Deutsche Bank's competitive weaknesses: excessive costs and too many underperforming business units. Furthermore, we see greater rigor in senior management's execution of the plan, and the bank is achieving its milestones as it works toward its 2022 financial targets. This has positive implications for franchise stability and the predictability and sustainability of earnings.

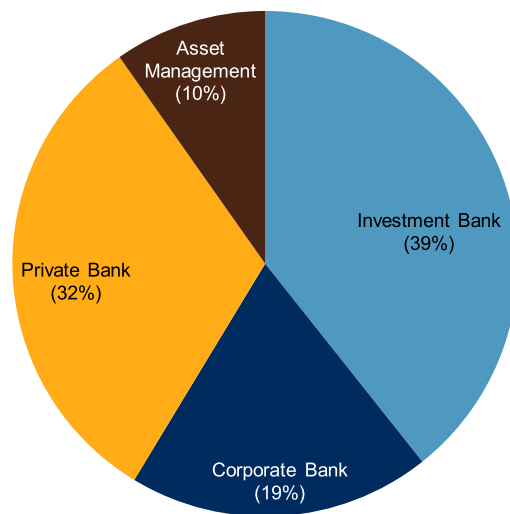
Steady earnings improvement on track to continue in 2022. Deutsche Bank's reported pretax profit improved to €3.3 billion in the first nine months of 2021, with a 4.8% return on tangible equity (RoTE). The bank's earnings potential was illustrated by its 7.5% RoTE excluding the capital release unit (CRU) that is ahead of schedule in managing down legacy assets. We expect that earnings will improve further in 2022 as transformation charges fall away, operating costs decline, and the CRU winds down. Interest rate headwinds are also easing thanks to deposit repricing, rising long-term euro rates, and loan growth. Achievement of the bank's 8% RoTE and 70% cost-to-income ratio targets for 2022 will require a significant step-up in performance from 2021. Outcomes in line with or close to the 2022 targets would narrow the gap to peers and lay the foundations for further progress in the bank's earnings.

High dependence on investment bank earnings. Our 'A-' long-term issuer credit rating on Deutsche Bank remains at the lower end of the range for the major global corporate and investment banks. Most of these competitors have greater business stability and stronger, more predictable profitability. Deutsche Bank has a diverse franchise and revenue base (see chart 1), but peers typically have a more substantial earnings stream from their retail and corporate banking businesses. Deutsche Bank's investment bank division represented just over 100% of statutory pretax profit in the first nine months of 2021, largely due to buoyant capital markets activity and the CRU's losses. Deutsche Bank's adjusted reporting basis showed the investment bank's underlying contribution to the core bank's earnings was lower, but still material, at 67%.

Chart 1

Diverse Revenue Base

Reported divisional revenues in the first nine months of 2021



Source: Deutsche Bank. Excludes the Capital Release Unit and the Corporate & Other segment.

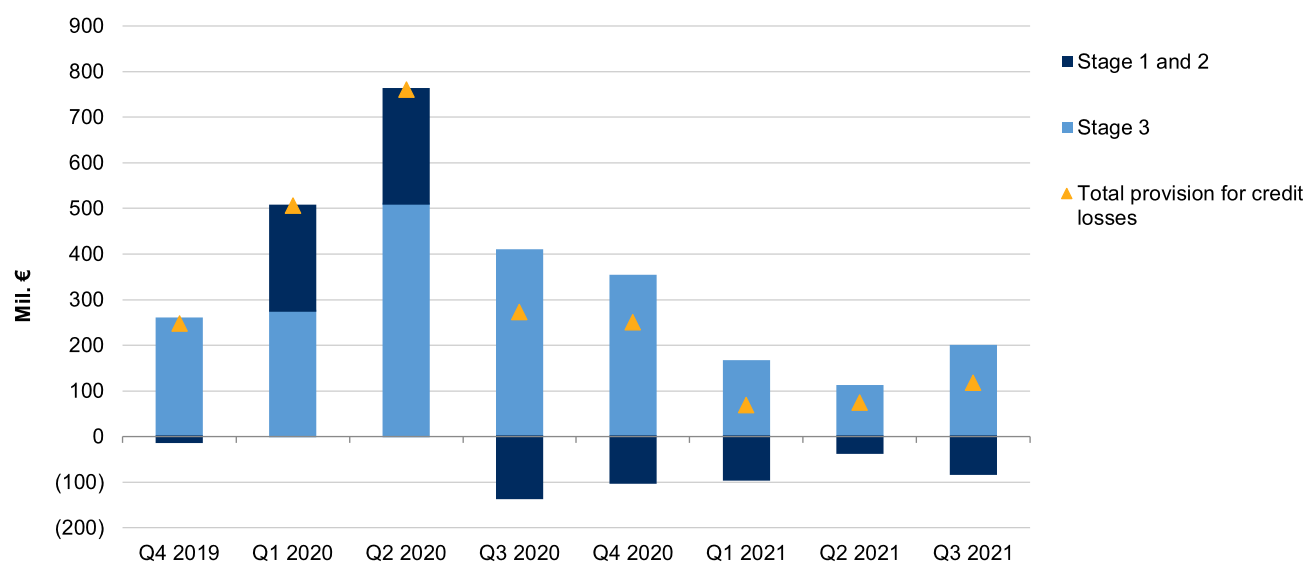
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Robust asset quality amid ongoing control remediation. Our risk position assessment balances Deutsche Bank's solid credit and market risk management with its inherent complexity and its track record of operational risk events. Like peers, it has managed well through the COVID-19 pandemic and its recent quarterly credit impairment charges have been very low (see chart 2), but the recent increase in infections in Germany and elsewhere shows that there remain downside risks to asset quality. The loan portfolio is well-diversified and significantly collateralized, and the bank avoided losses from the Archegos and Wirecard defaults. Deutsche Bank has made progress in reducing outstanding litigation but there are some notable ongoing regulatory investigations. Importantly, Deutsche Bank's focus on cost efficiency does not appear to have squeezed necessary investments in internal control remediation, including its anti-financial-crime framework.

Chart 2

Credit Impairment Charges Have Eased Since Mid-2020

Quarterly provisions for credit losses



Source: Deutsche Bank.

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Solid capital and additional loss-absorbing capacity. The common equity Tier 1 ratio was 13.0% at Sept. 30, 2021, and we expect it will remain about that level. This implies that our risk-adjusted capital ratio will be close to 9.0% through year-end 2023, with our additional loss-absorbing capacity ratio about 11%. Deutsche Bank restarted dividend accruals this year and we assume in our projections that shareholder distributions will grow over the forecast period as earnings strengthen.

Funding and liquidity buffers are neutral to the rating. Our funding and liquidity ratios are close to the peer group averages, and regulatory metrics also indicate a healthy position. Deutsche Bank's business model refocusing has benefited its balance sheet stability and reduced dependence on short-term wholesale funding. The 123% net stable funding ratio in the third quarter of 2021 stood above the bank's 115%-120% target range and the 100% regulatory requirement. Increased lending activity caused the liquidity coverage ratio to dip slightly to 137% at Sept. 30, 2021, but it remained comfortably in excess of the 130% internal target.

Outlook: Stable

The stable outlook reflects our view that Deutsche Bank is set to maintain its improved strategic focus and execution. We expect that the bank's 2022 earnings will strengthen meaningfully, which would narrow the performance gap to peers and improve its resilience to unexpected stresses. We also assume the maintenance of sound capital and liquidity buffers, in line with management guidance.

Upside scenario

We could consider raising the ratings over our two-year outlook horizon if Deutsche Bank continues to deliver on its strategy and positions its creditworthiness closer to peers with 'bbb+' group stand-alone credit profiles or 'A' issuer credit ratings. In particular, we would look for evidence that the bank is set to sustain stronger, more consistent earnings, and has a clear plan to move on from its transformation program to a more business-as-usual approach. We would also take account of divisional earnings and whether the investment bank's outsized contribution to current group profitability is likely to be balanced by stronger performances from the private bank and corporate bank in particular.

Downside scenario

We could lower the ratings if the bank fails to complete its transformation plan and deliver stronger earnings, resulting in further upheaval of the business and operating models.

Key Metrics**Deutsche Bank AG--Key Ratios And Forecasts**

	--Fiscal year ended Dec. 31--				
(%)	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	(8.5)	3.7	4.0-5.0	0.0-(1.0)	0.0-(1.0)
Growth in customer loans	7.5	(0.3)	4.5-5.5	2.25-2.75	1.75-2.25
Net interest income/average earning assets (NIM)	1.9	1.7	1.5-1.7	1.5-1.7	1.6-1.8
Cost to income ratio	100.3	85.4	80.0-85.0	70.0-75.0	70.0-75.0
Return on average common equity	(9.1)	0.9	3.0-3.5	5.5-6.0	5.75-6.25
New loan loss provisions/average customer loans	0.2	0.4	0.1-0.2	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	2.2	2.8	3.0-3.3	3.0-3.3	2.4-2.7
Risk-adjusted capital ratio	9.4	9.4	8.75-9.25	8.75-9.25	8.75-9.25

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Key Statistics**Table 1****Deutsche Bank AG--Key Figures**

	--Year-ended Dec. 31--				
(Mil. €)	2021*	2020	2019	2018	2017
Adjusted assets	1,313,538.0	1,318,534.0	1,290,645.0	1,337,906.0	1,465,893.0

Table 1

Deutsche Bank AG--Key Figures (cont.)					
--Year-ended Dec. 31--					
(Mil. €)	2021*	2020	2019	2018	2017
Customer loans (gross)	445,062.0	426,427.0	427,733.0	397,951.0	392,782.0
Adjusted common equity	48,520.0	46,140.6	47,160.4	48,657.0	48,699.0
Operating revenues	13,470.0	24,028.0	23,163.0	25,316.0	26,508.0
Noninterest expenses	10,391.0	20,527.0	23,233.0	23,460.0	24,015.0
Core earnings	2,046.0	1,312.0	(3,423.0)	342.0	5.0

*Data as of June 30.

Table 2

Deutsche Bank AG--Business Position					
--Year-ended Dec. 31--					
(%)	2021*	2020	2019	2018	2017
Total revenues from business line (currency in millions)	13,470.0	24,028.0	23,163.0	25,316.0	26,448.0
Commercial banking/total revenues from business line	18.9	21.4	22.7	22.6	20.9
Retail banking/total revenues from business line	31.2	33.8	35.6	40.1	38.5
Commercial & retail banking/total revenues from business line	50.0	55.2	58.3	62.8	59.4
Trading and sales income/total revenues from business line	40.8	38.6	30.1	28.9	24.4
Corporate finance/total revenues from business line	N/A	N/A	N/A	N/A	8.4
Asset management/total revenues from business line	9.4	9.3	10.1	8.6	9.6
Other revenues/total revenues from business line	(0.2)	(3.1)	1.6	(0.3)	(1.8)
Investment banking/total revenues from business line	40.8	38.6	30.1	28.9	32.9
Return on average common equity	6.5	0.9	(9.1)	0.4	(1.2)

*Data as of June 30. N/A--Not applicable.

Table 3

Deutsche Bank AG--Capital And Earnings					
--Year-ended Dec. 31--					
(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	15.2	15.3	15.0	14.9	15.4
S&P Global Ratings' RAC ratio before diversification	N/A	9.4	9.4	8.7	9.6
S&P Global Ratings' RAC ratio after diversification	N/A	11.1	11.1	10.2	11.4
Adjusted common equity/total adjusted capital	85.7	86.9	87.9	86.4	85.0
Net interest income/operating revenues	40.5	48.0	59.4	52.1	46.7
Fee income/operating revenues	39.4	39.2	41.1	39.7	41.5
Market-sensitive income/operating revenues	18.2	13.0	2.0	6.5	13.1
Cost to income ratio	77.1	85.4	100.3	92.7	90.6
Provision operating income/average assets	0.5	0.3	(0.0)	0.1	0.2
Core earnings/average managed assets	0.3	0.1	(0.3)	0.0	0.0

*Data as of June 30. N/A--Not applicable.

Table 4

Deutsche Bank AG--Risk Position					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	8.7	(0.3)	7.5	1.3	(1.8)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(15.6)	(15.2)	(14.3)	(15.7)
Total managed assets/adjusted common equity (x)	27.2	28.7	27.5	27.7	30.3
New loan loss provisions/average customer loans	0.1	0.4	0.2	0.1	0.1
Net charge-offs/average customer loans	0.1	0.2	0.2	0.2	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.8	2.2	2.3	2.0
Loan loss reserves/gross nonperforming assets	41.2	41.3	42.6	46.8	48.9

*Data as of June 30.

Table 5

Deutsche Bank AG--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	65.4	60.0	61.3	56.6	52.4
Customer loans (net)/customer deposits	75.7	85.6	85.5	81.6	80.5
Long-term funding ratio	77.2	75.5	77.6	73.0	69.4
Stable funding ratio	107.5	104.1	105.3	100.1	103.1
Short-term wholesale funding/funding base	24.4	26.2	24.0	29.0	32.7
Broad liquid assets/short-term wholesale funding (x)	1.7	1.6	1.7	1.5	1.5
Net broad liquid assets/short-term customer deposits	27.3	28.2	28.7	25.3	32.4
Short-term wholesale funding/total wholesale funding	68.6	64.3	60.8	65.3	67.5
Narrow liquid assets/3-month wholesale funding (x)	2.9	2.3	2.0	1.7	1.8

*Data as of June 30.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015

- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Deutsche Bank Long-Term Rating Raised To 'A-' On Improved Performance And Strategy Execution; Outlook Stable, Nov. 9, 2021
- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021
- Deutsche Bank AG, Sept. 1, 2021
- Deutsche Bank Outlook Revised To Positive On Improving Resilience; Ratings Affirmed And "May-Pay" Notes Upgraded, Feb. 26, 2021

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 24, 2021)*

Deutsche Bank AG

Issuer Credit Rating

A-/Stable/A-2

Turkey National Scale

trAAA/--/trA-1+

Resolution Counterparty Rating

A/--/A-1

Certificate Of Deposit

Foreign Currency

A-/A-2/A-2

Ratings Detail (As Of November 24, 2021)*(cont.)

Commercial Paper	A-2
Junior Subordinated	BB-
Senior Subordinated	BBB-
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BB+
Issuer Credit Ratings History	
09-Nov-2021	A-/Stable/A-2
26-Feb-2021	BBB+/Positive/A-2
23-Apr-2020	BBB+/Negative/A-2
01-Jun-2018	BBB+/Stable/A-2
12-Apr-2018	A-/Watch Neg/A-2
28-Mar-2017	A-/Negative/A-2
15-Dec-2016	BBB+/Watch Pos/A-2
28-Jun-2018	trAAA/--/trA-1+
08-Jul-2016	trAAA/--/trA-1
Sovereign Rating	
Germany	AAA/Stable/A-1+
Related Entities	
Deutsche Bank AG (Canada Branch)	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Deutsche Bank AG (Cayman Islands Branch)	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Deutsche Bank AG (London Branch)	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Resolution Counterparty Liability	A
Senior Subordinated	BBB-
Senior Unsecured	A-
Deutsche Bank AG (Madrid Branch)	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Deutsche Bank AG (Milan Branch)	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Deutsche Bank AG (Sydney Branch)	
Senior Subordinated	BBB-
Deutsche Bank Capital Finance Trust I	
Preferred Stock	BB
Deutsche Bank Luxembourg S.A.	
Issuer Credit Rating	A-/Stable/A-2

Ratings Detail (As Of November 24, 2021)*(cont.)	
Resolution Counterparty Rating	A/--/A-1
Deutsche Bank Mexico S.A.	
Issuer Credit Rating	
<i>CaVal (Mexico) National Scale</i>	mxBBB/Stable/mxA-2
Deutsche Bank National Trust Co.	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-2
Deutsche Bank Securities Inc.	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/A-2
Resolution Counterparty Rating	
<i>Local Currency</i>	A/--/A-2
Deutsche Bank Trust Co. Americas	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-2
Deutsche Bank Trust Co. Delaware	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-2
Deutsche Bank Trust Corp.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Senior Unsecured	A-2
Subordinated	BB+
Deutsche Securities Inc.	
Issuer Credit Rating	A-/Stable/A-2
Deutsche Securities, S.A. de C.V., Casa de Bolsa	
Issuer Credit Rating	
<i>CaVal (Mexico) National Scale</i>	mxBBB/Stable/mxA-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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